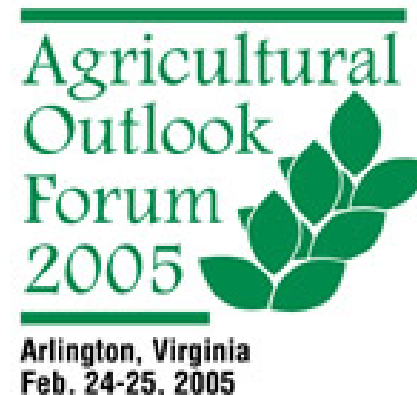


Rising Farm Debt: Income and Asset Value Considerations

James Ryan

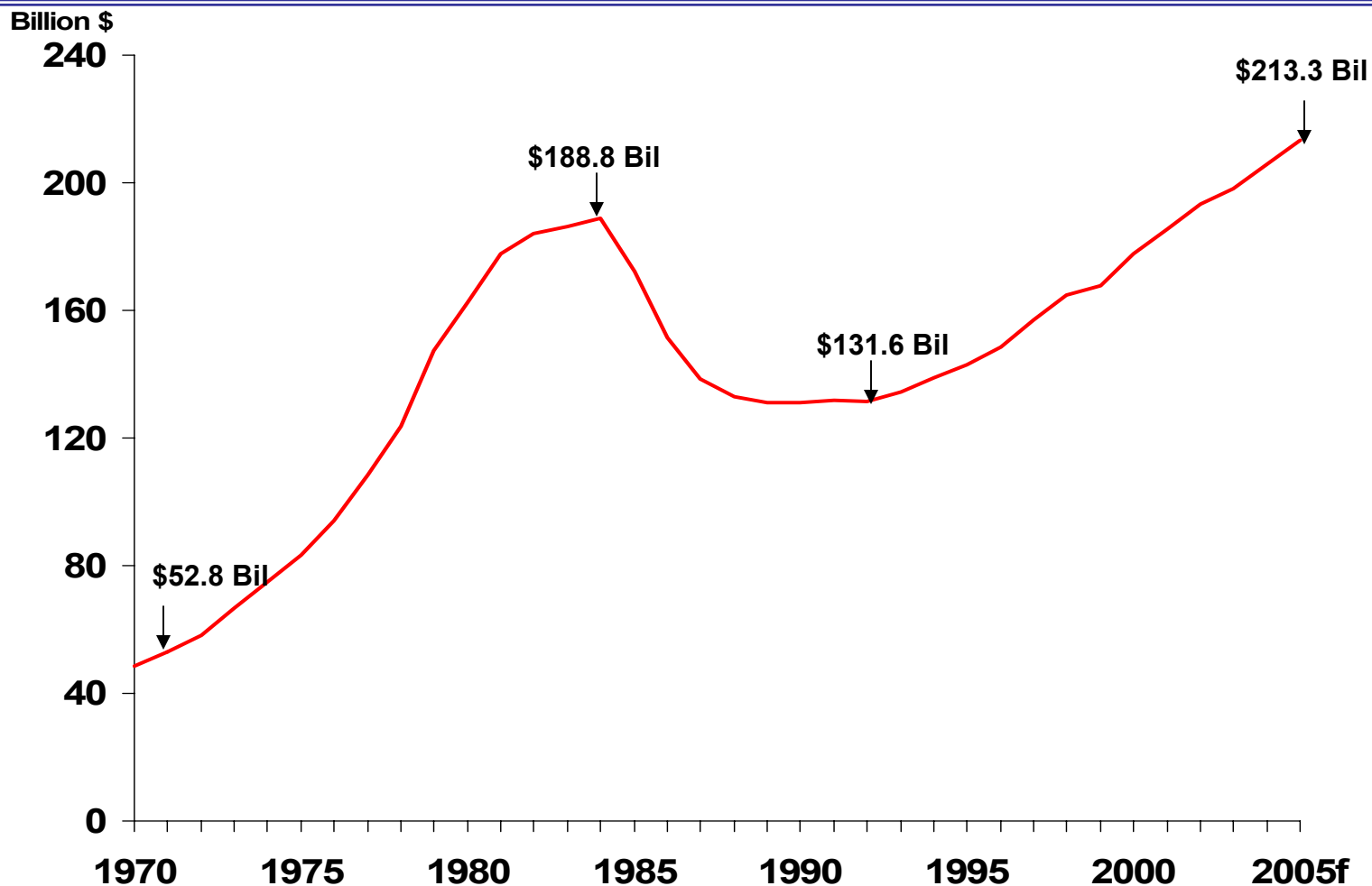
Economic Research Service



Purpose of Presentation

- ▶ Farm economy is generally healthy in 2005
- ▶ Farm income measures are relatively high
- ▶ Farm business balance sheet has improved
 - Farm assets have increased faster than debt
 - Equity values have increased
 - Debt-to-asset ratios have declined
- ▶ Farm business debt has risen to record levels
- ▶ Are debt levels likely to be a problem relative to:
 - Value of farm business assets?
 - Farmers' ability to service debt?

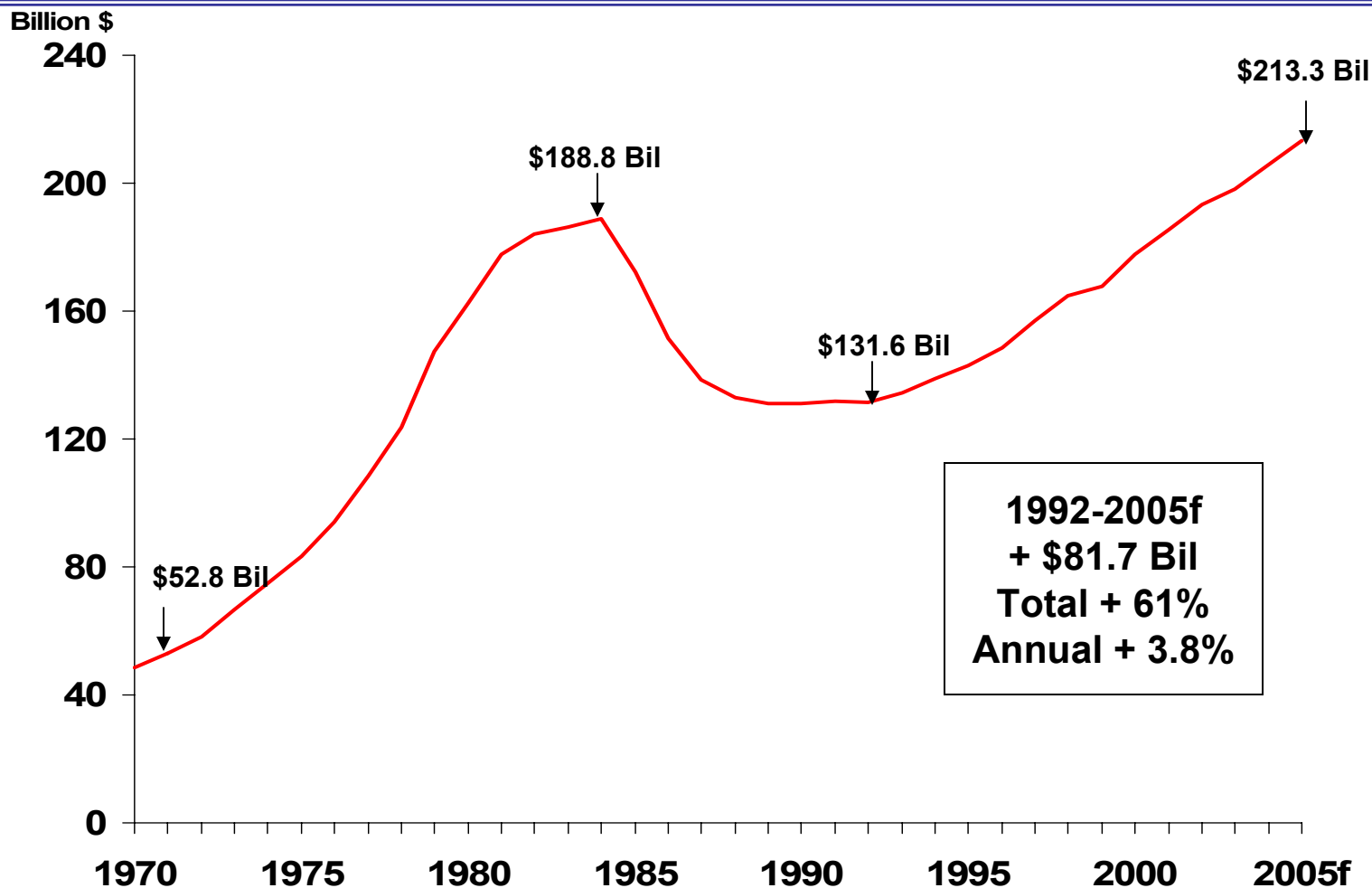
Total farm business debt, 1970-2005f



f = forecast

Source: Economic Research Service, USDA

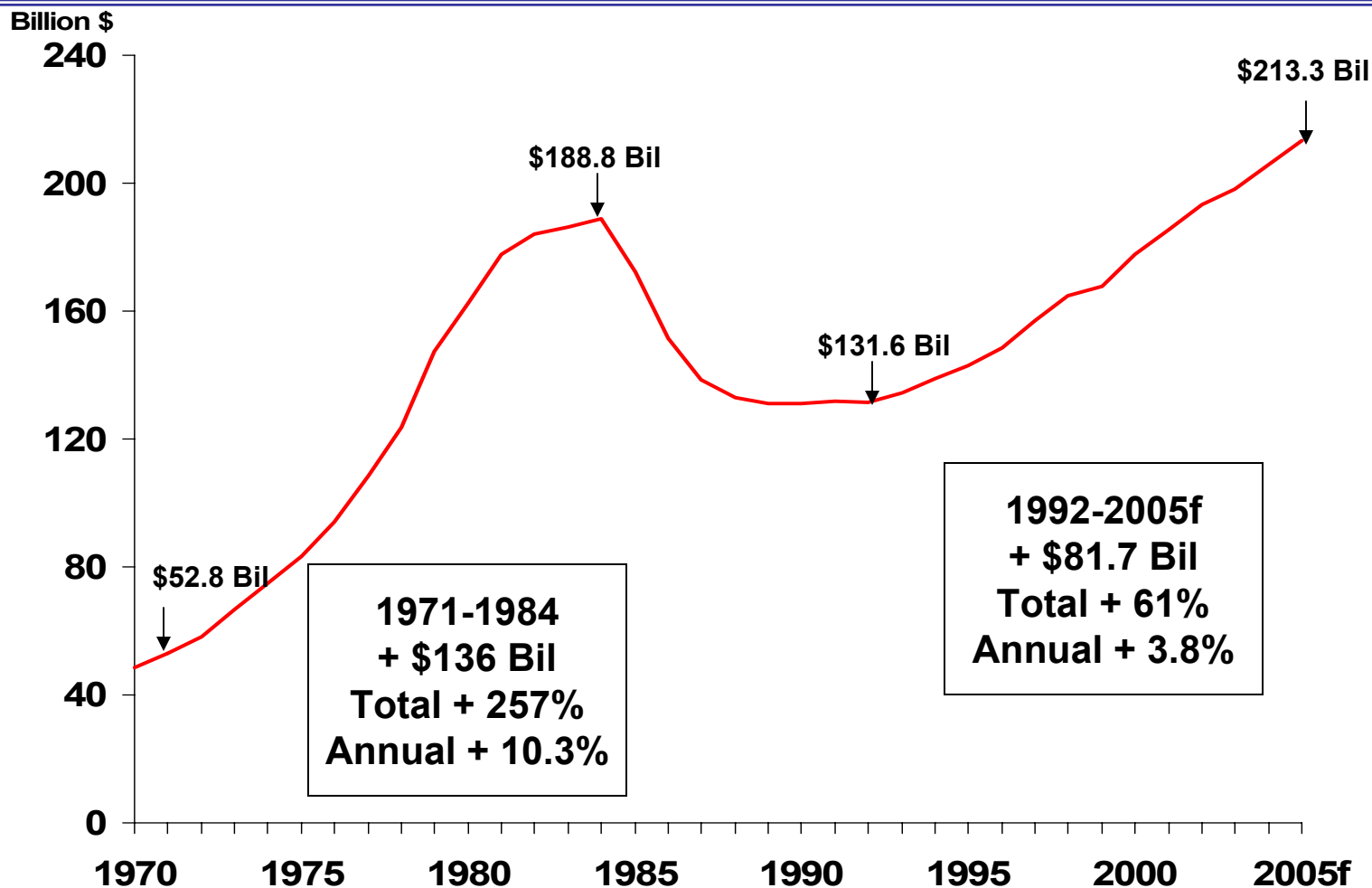
Total farm business debt, 1970-2005f



f = forecast

Source: Economic Research Service, USDA

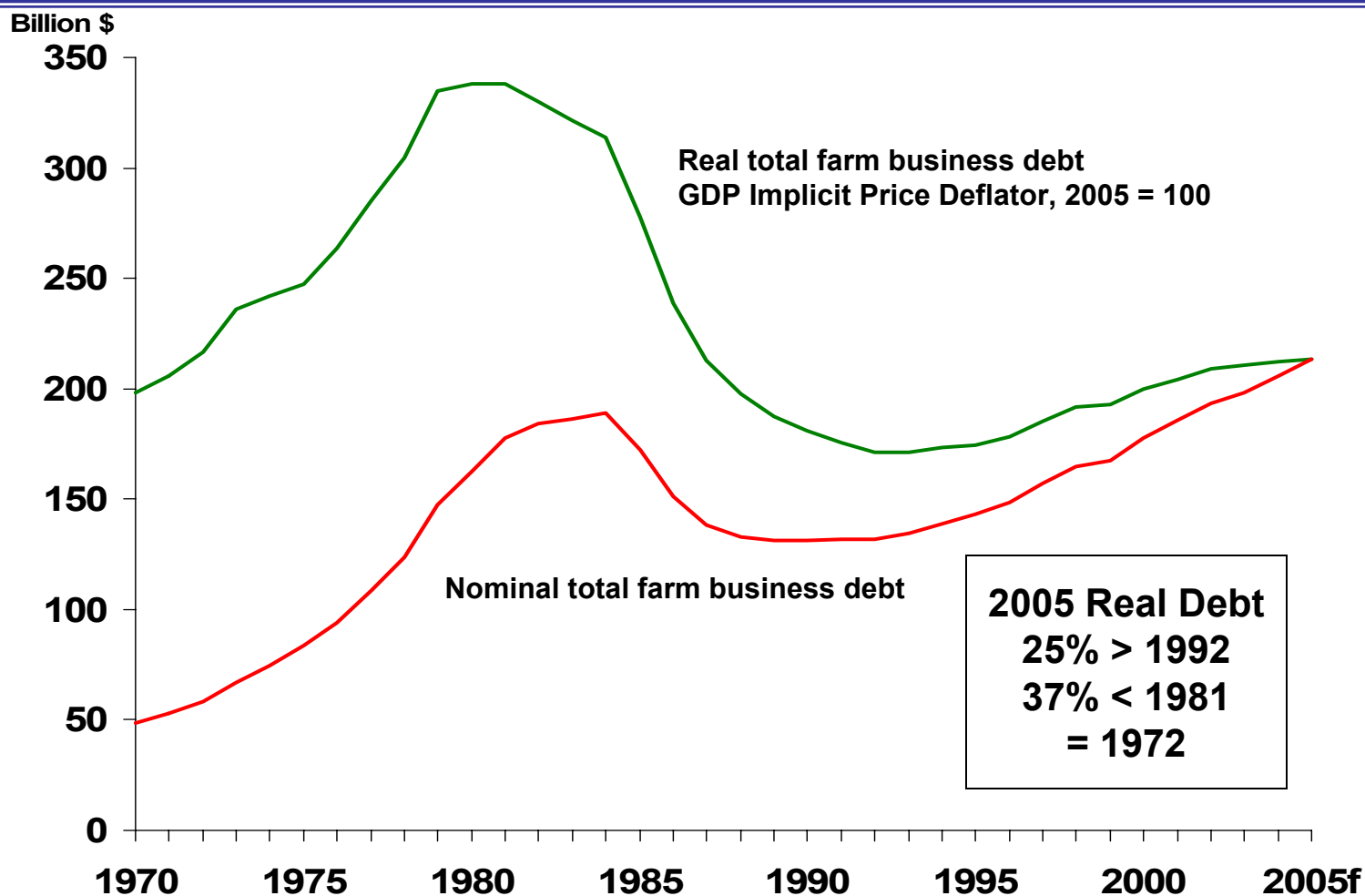
Total farm business debt, 1970-2005f



f = forecast

Source: Economic Research Service, USDA

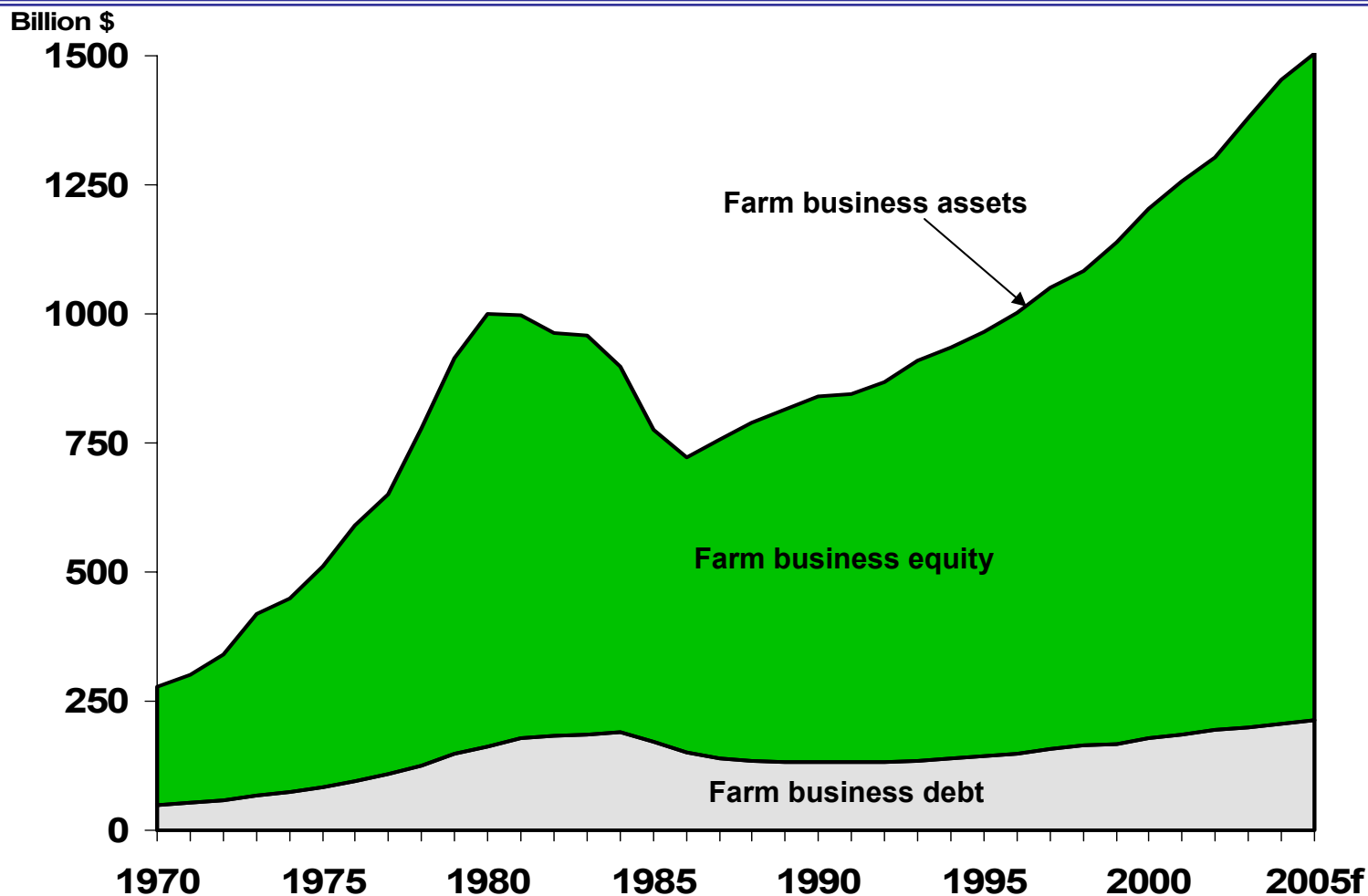
Real and nominal total farm business debt, 1970-2005f



f = forecast

Source: Economic Research Service, USDA

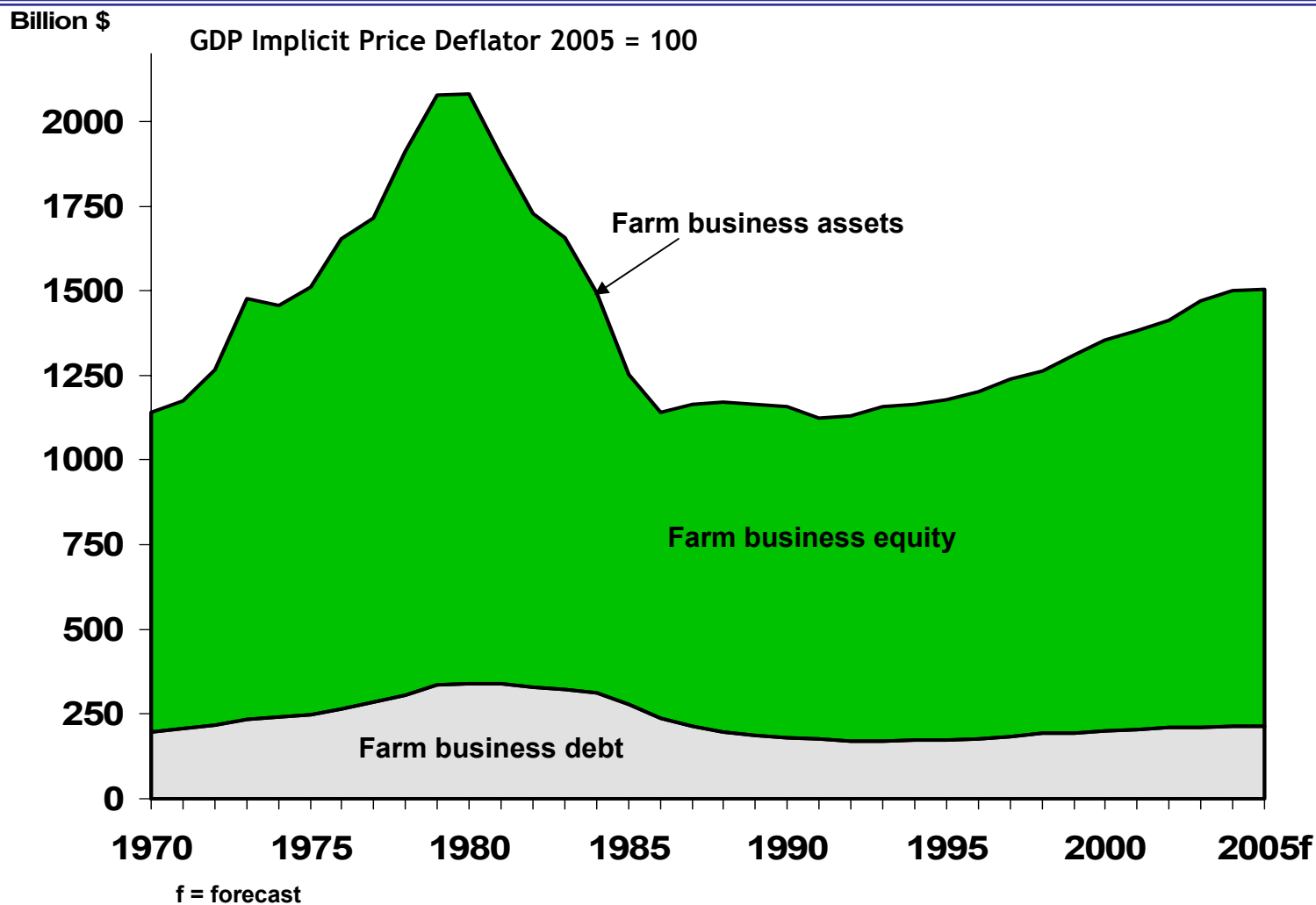
Nominal farm business balance sheet, 1970-2005f



f = forecast

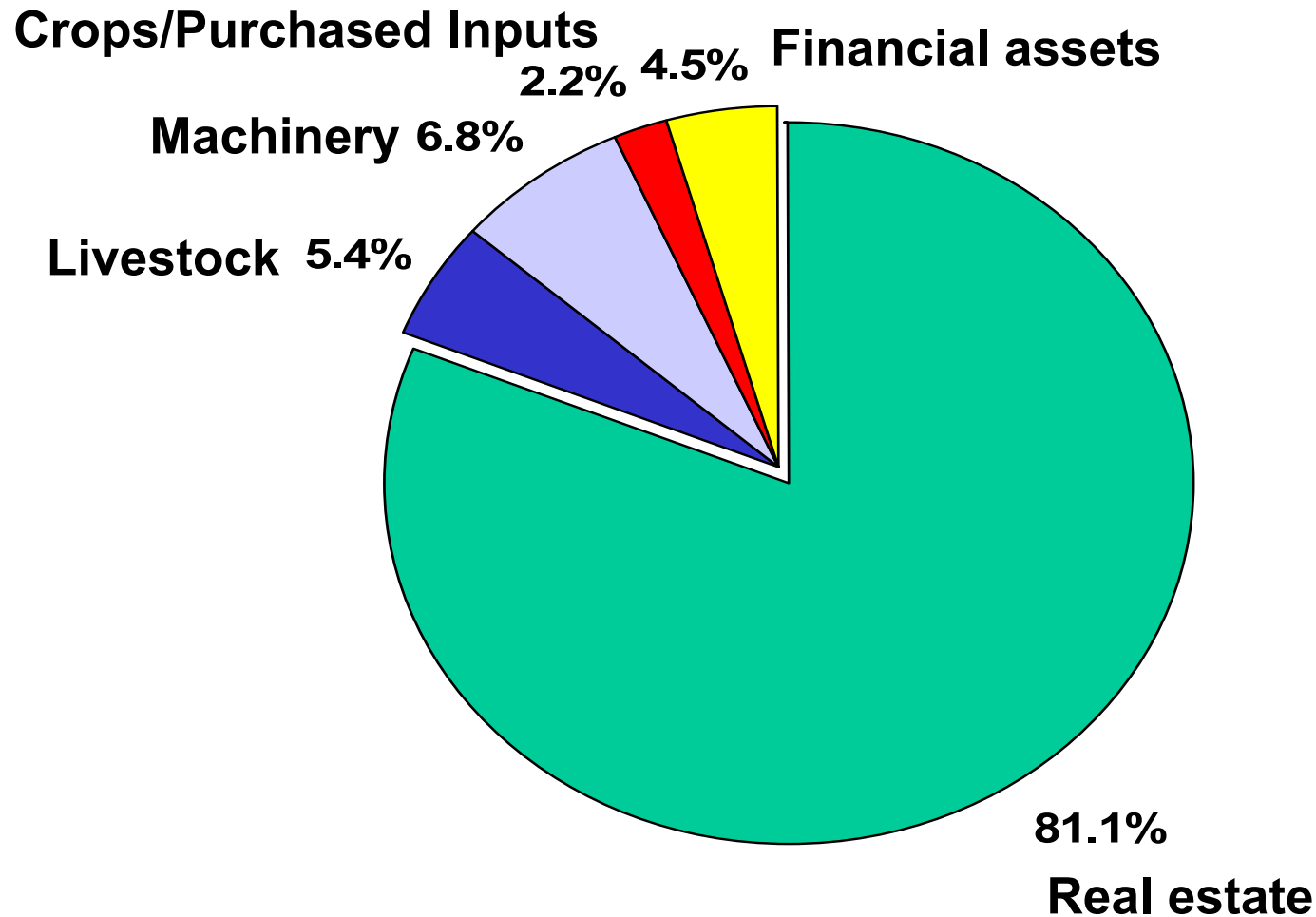
Source: Economic Research Service, USDA

Real farm business balance sheet, 1970-2005f



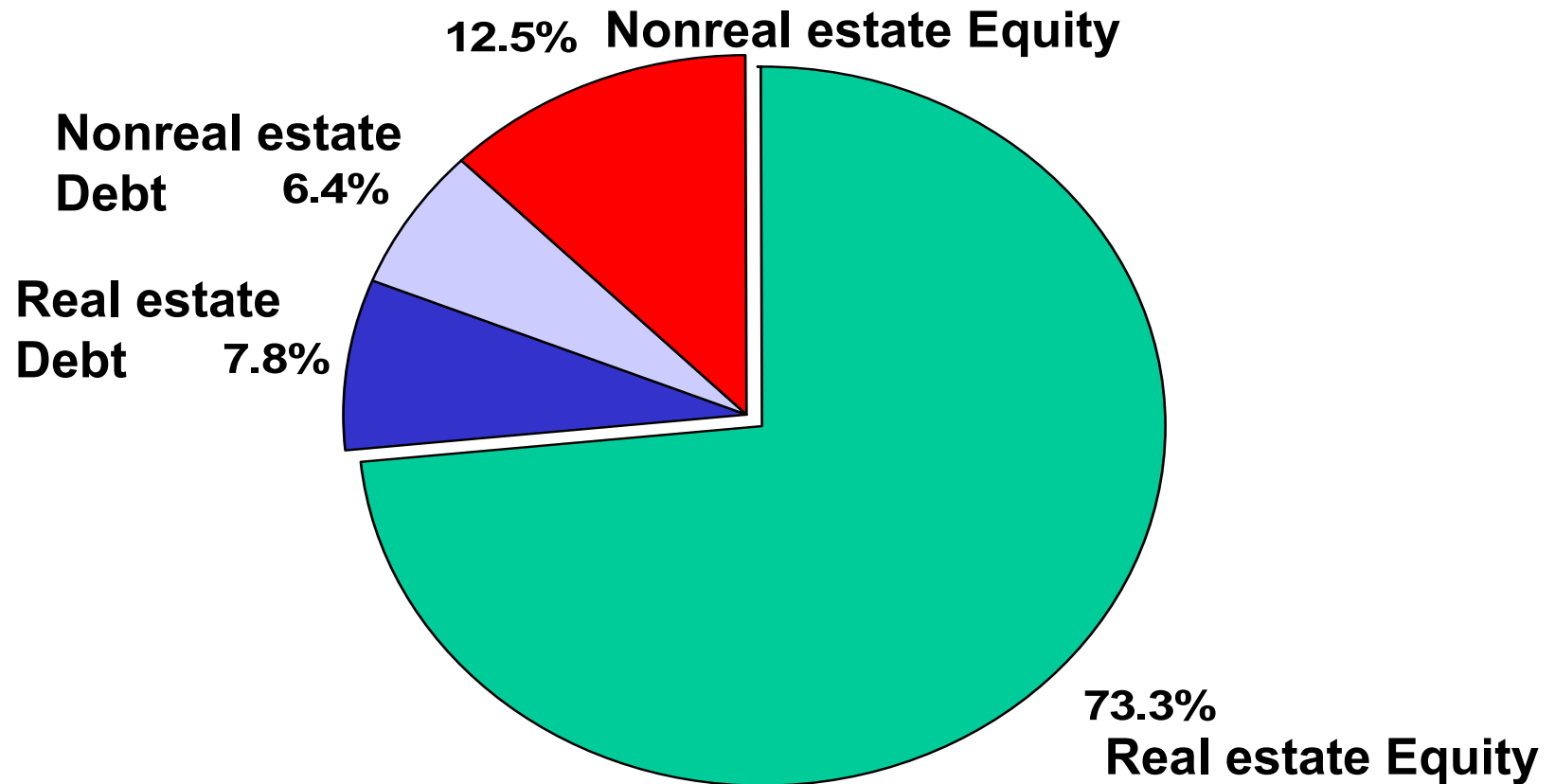
Source: Economic Research Service, USDA

Farm Sector Assets, December 31, 2004F



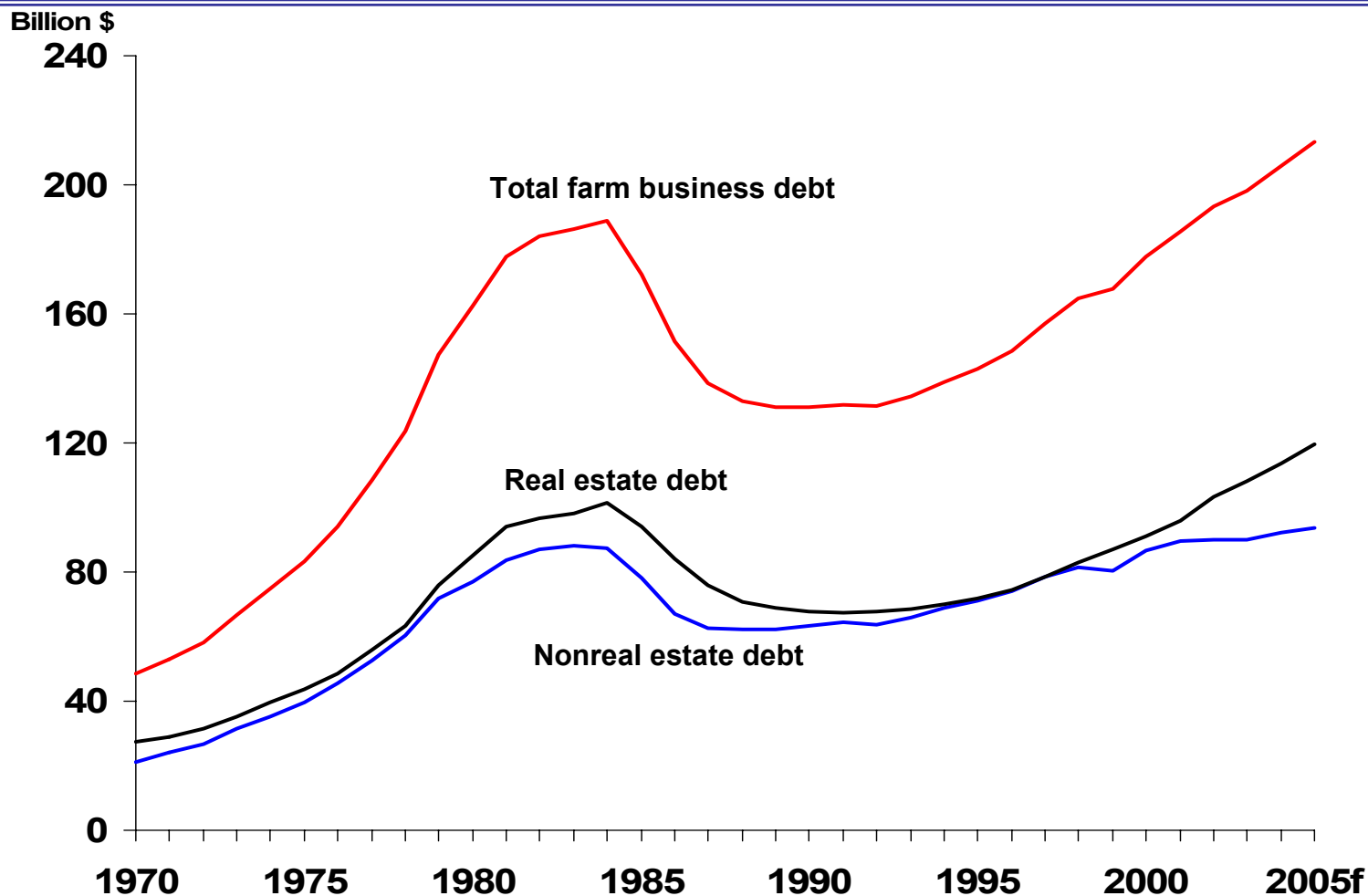
Source: Economic Research Service, USDA

Farm Sector Liabilities and Equity, December 31, 2004f



Source: Economic Research Service, USDA

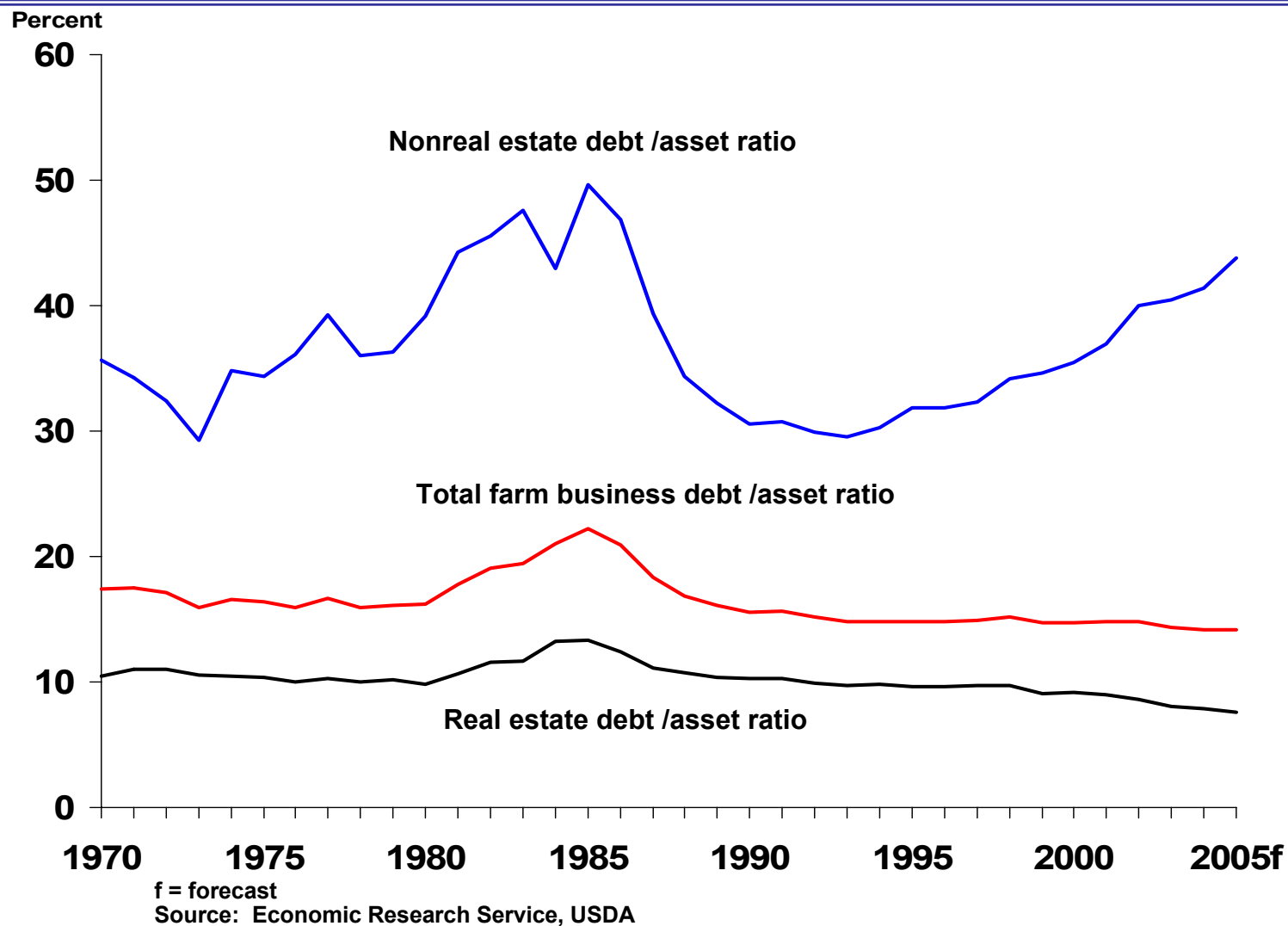
Farm business debt, 1970-2005f



f = forecast

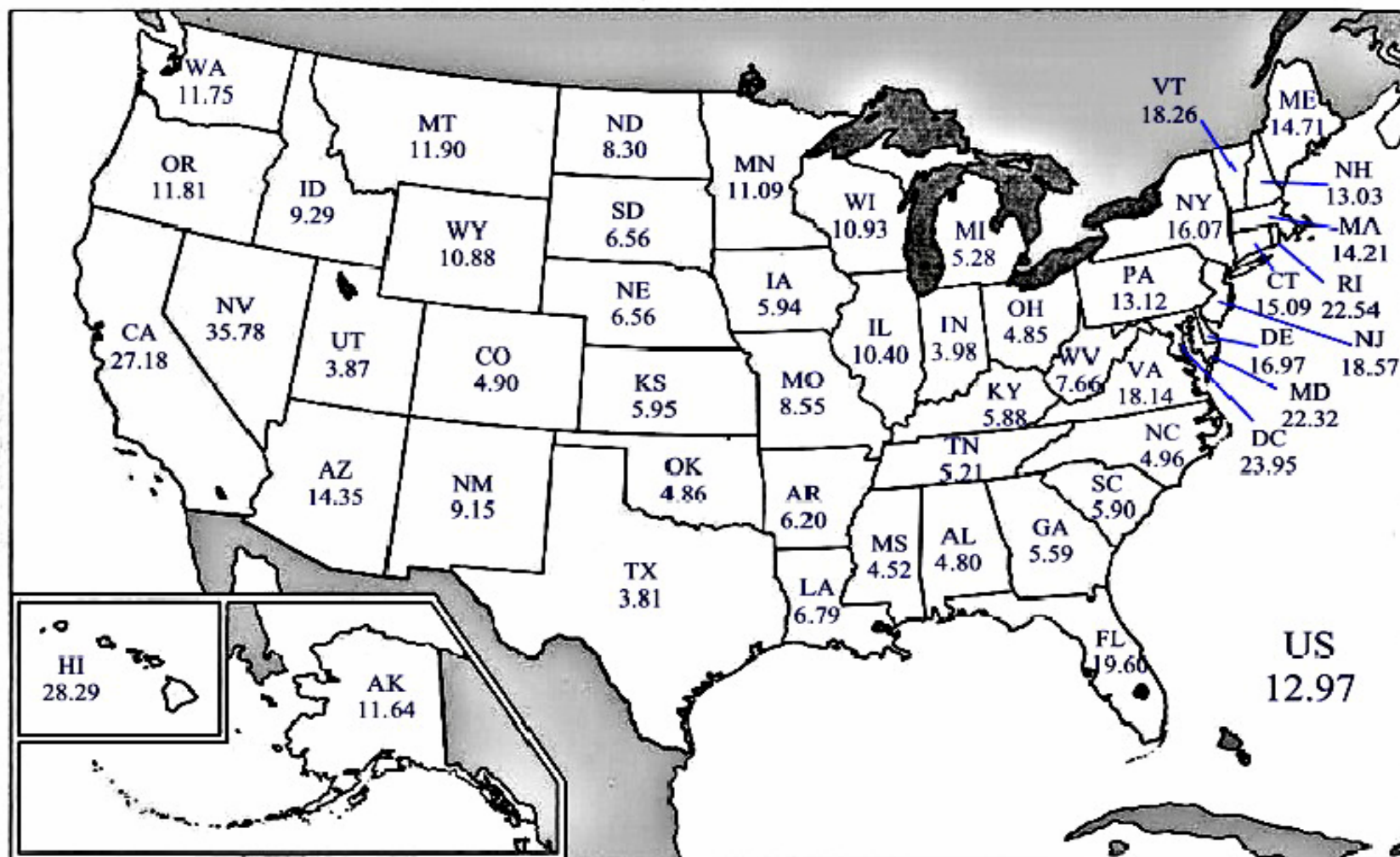
Source: Economic Research Service, USDA

Farm business real estate, nonreal estate, and total debt/asset ratios, 1970-2005f



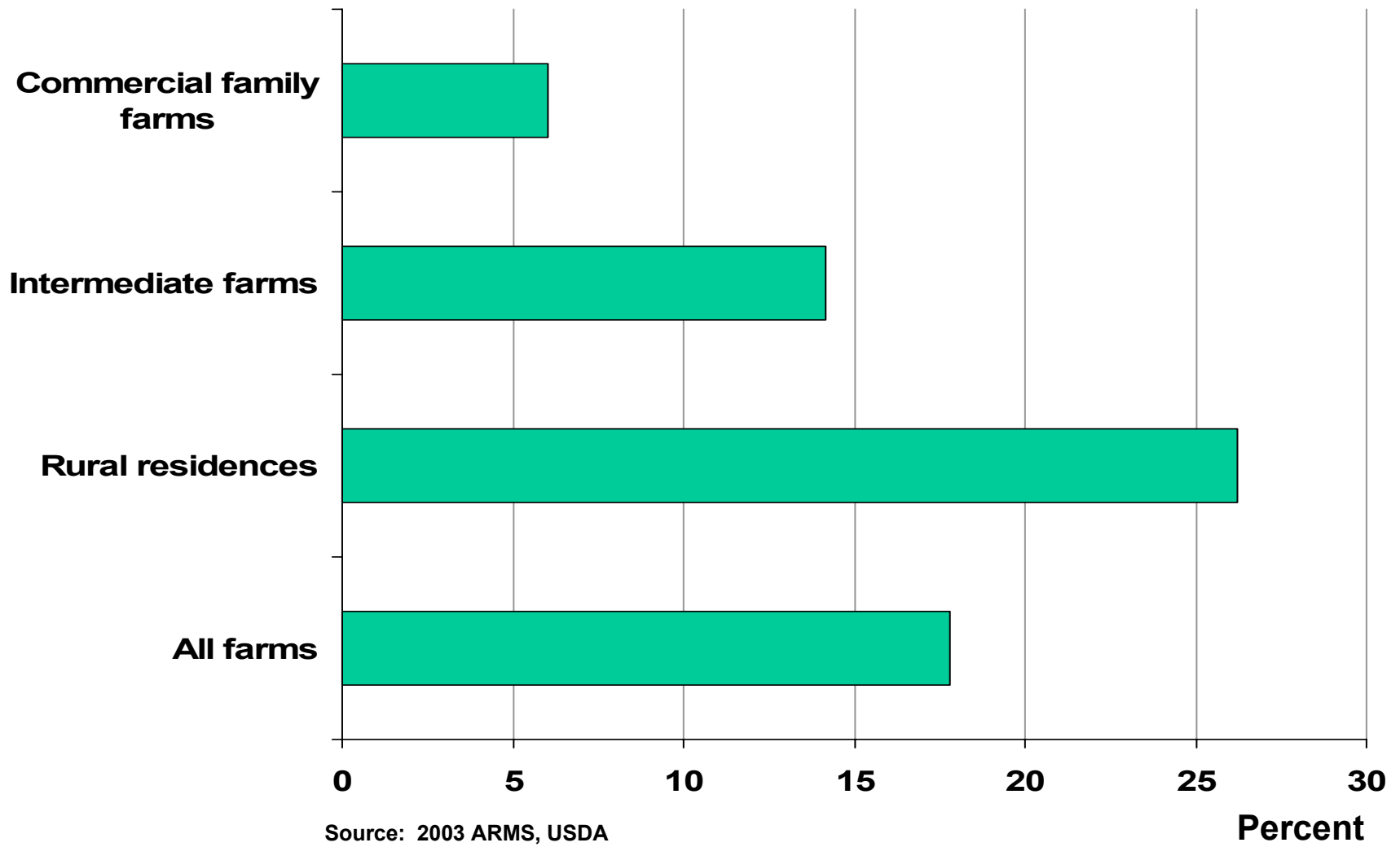


Annual Change in US Housing Prices, 9/30/03 to 9/30/2004

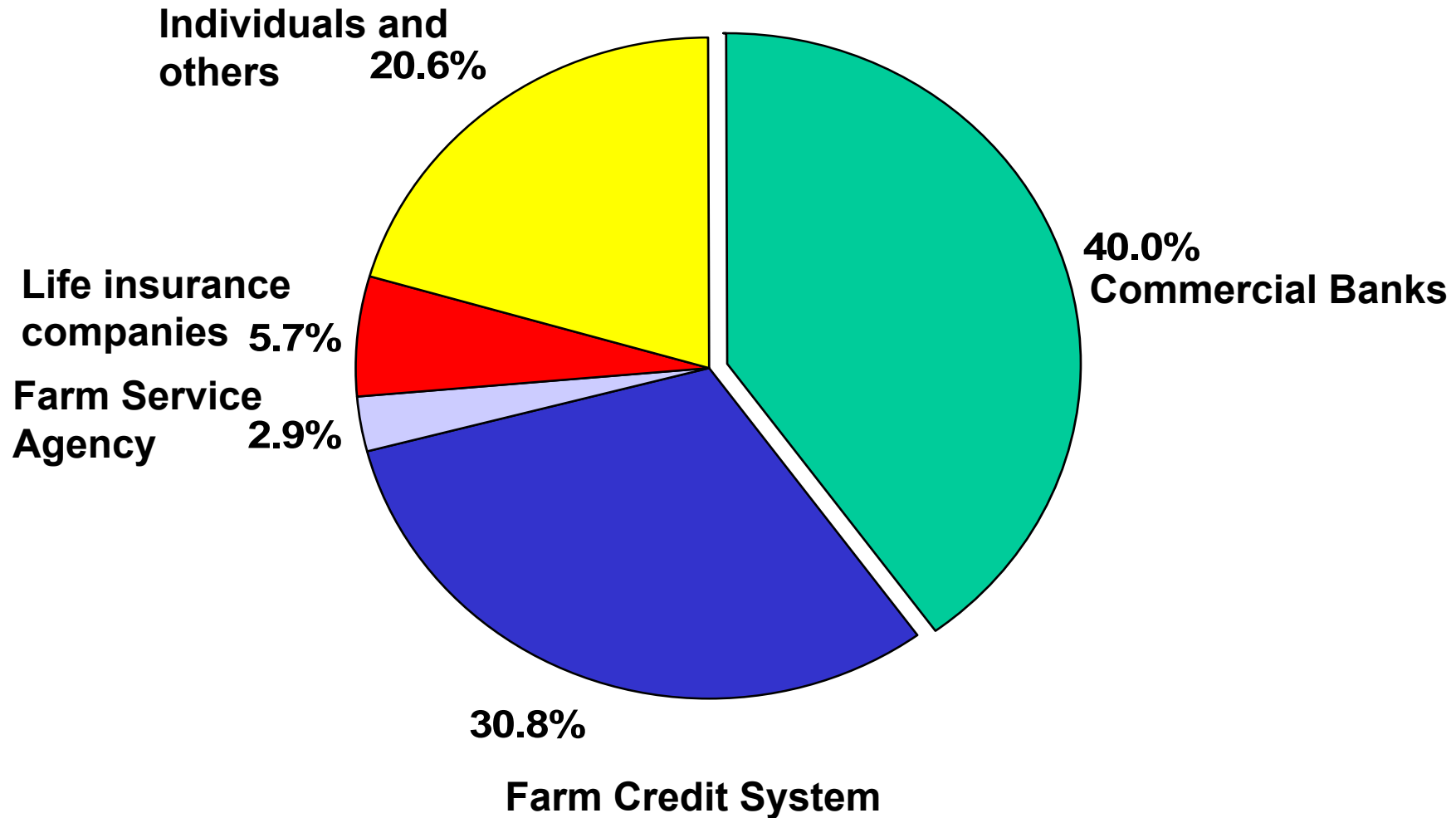


Source: Office of Federal Housing Enterprise Oversight, OFHEO Housing Price Index, released Dec 1, 2004

Operator dwelling share of value of farm real estate, by farm typology, 2003

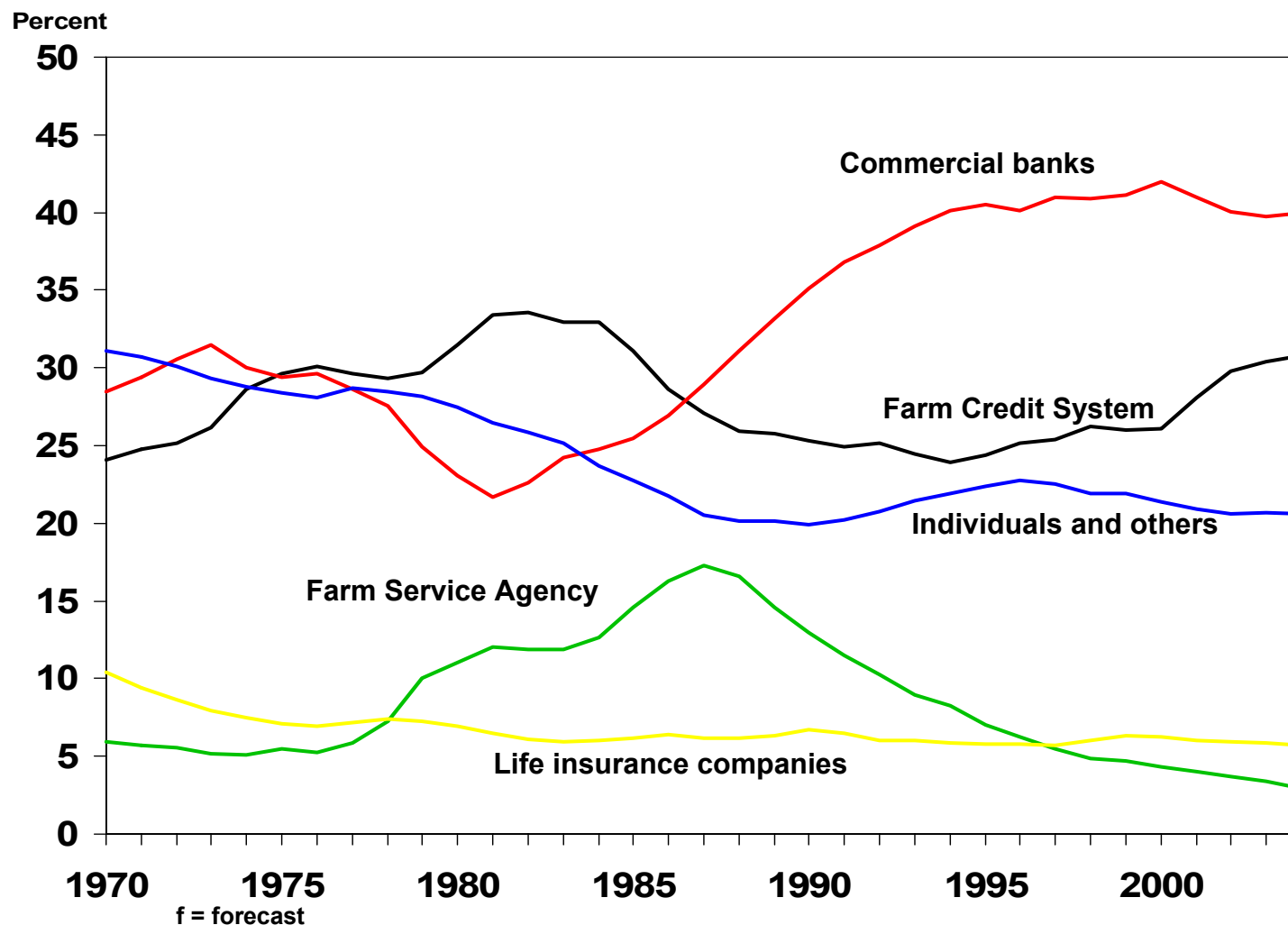


Lender shares of total farm business debt, December 31, 2004f



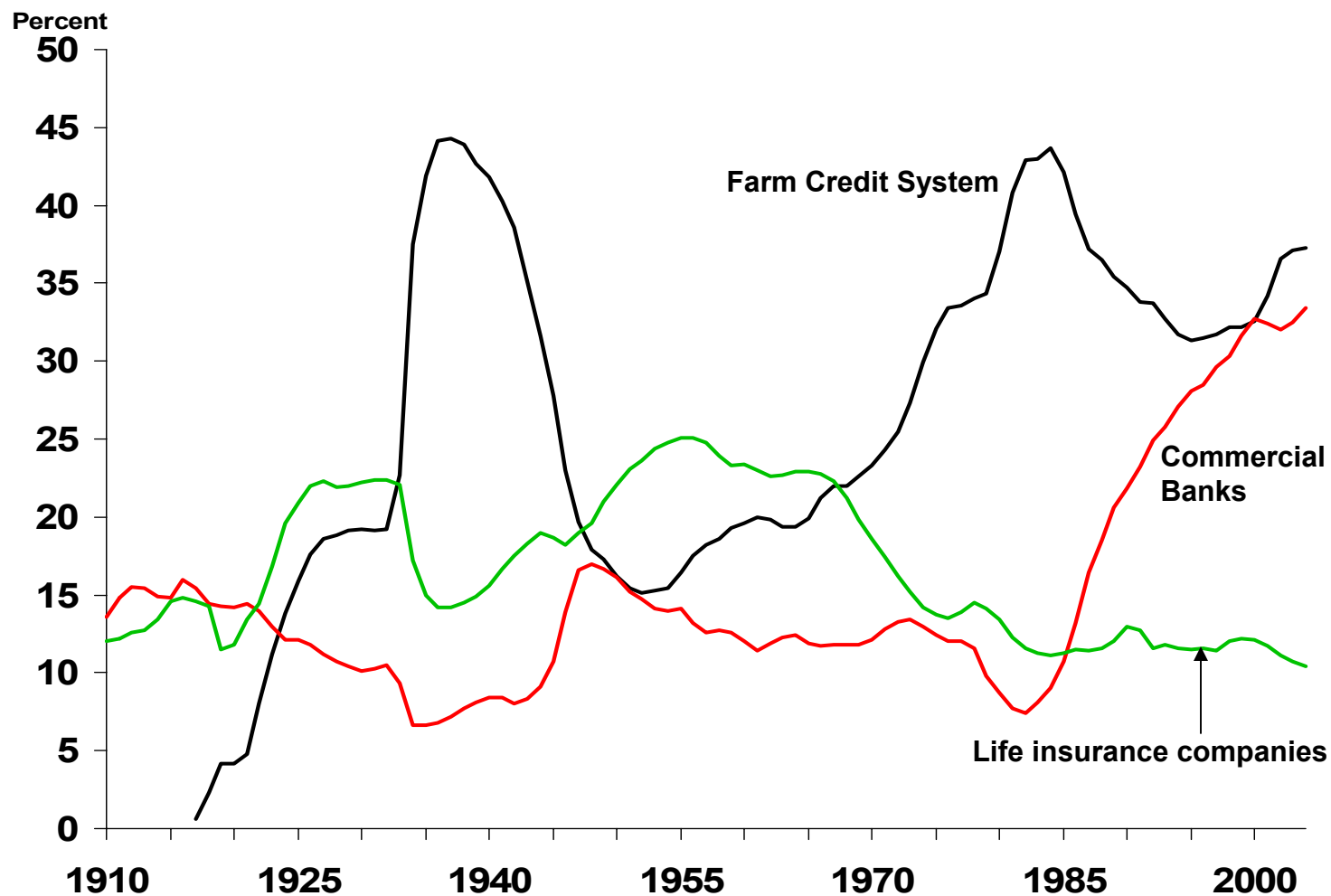
Source: Economic Research Service, USDA

Lender market shares of total farm business debt, 1970-2004f



Source: Economic Research Service, USDA

Lenders' shares of farm mortgage market, 1910-2004f



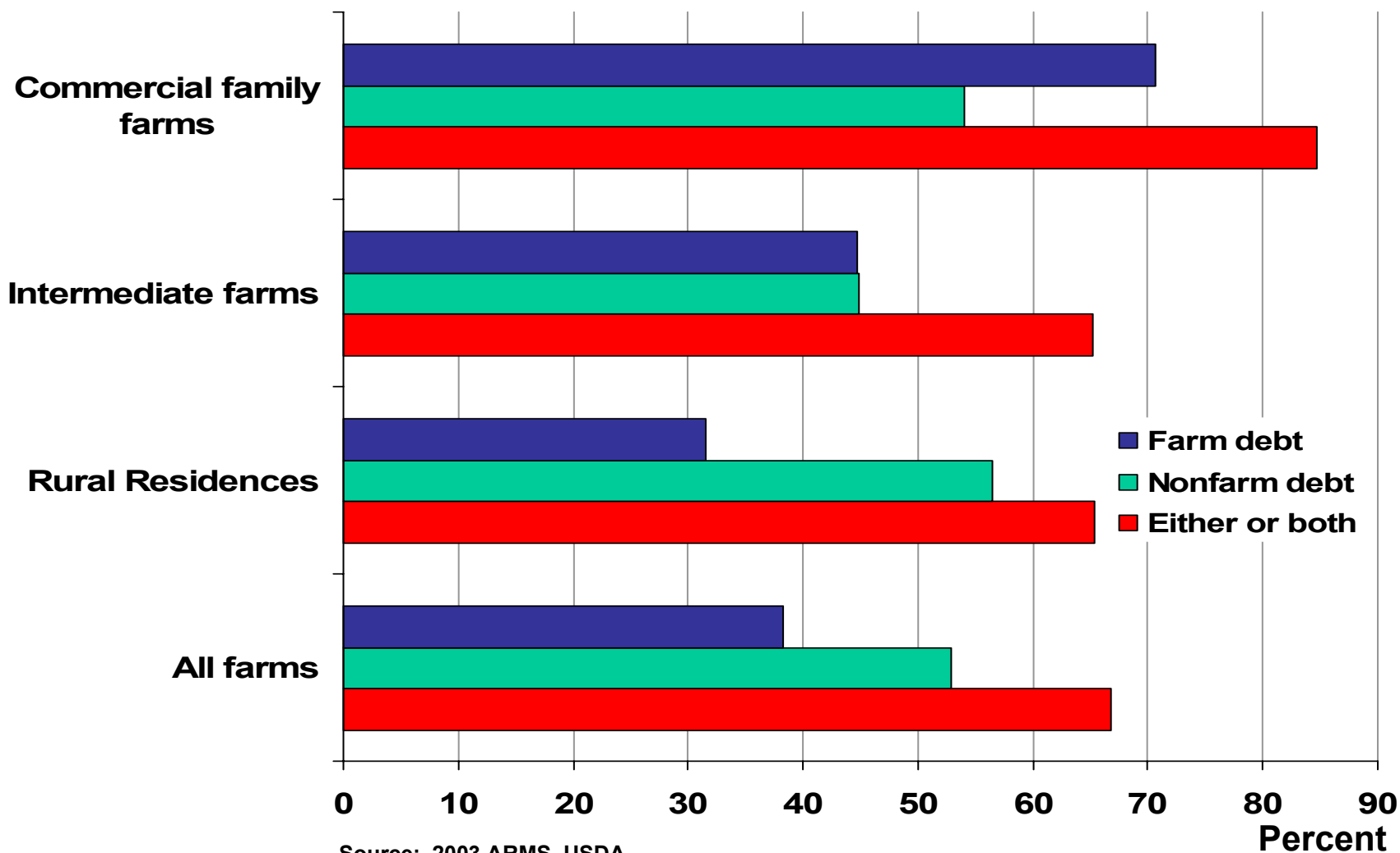
f = forecast

Source: Economic Research Service, USDA

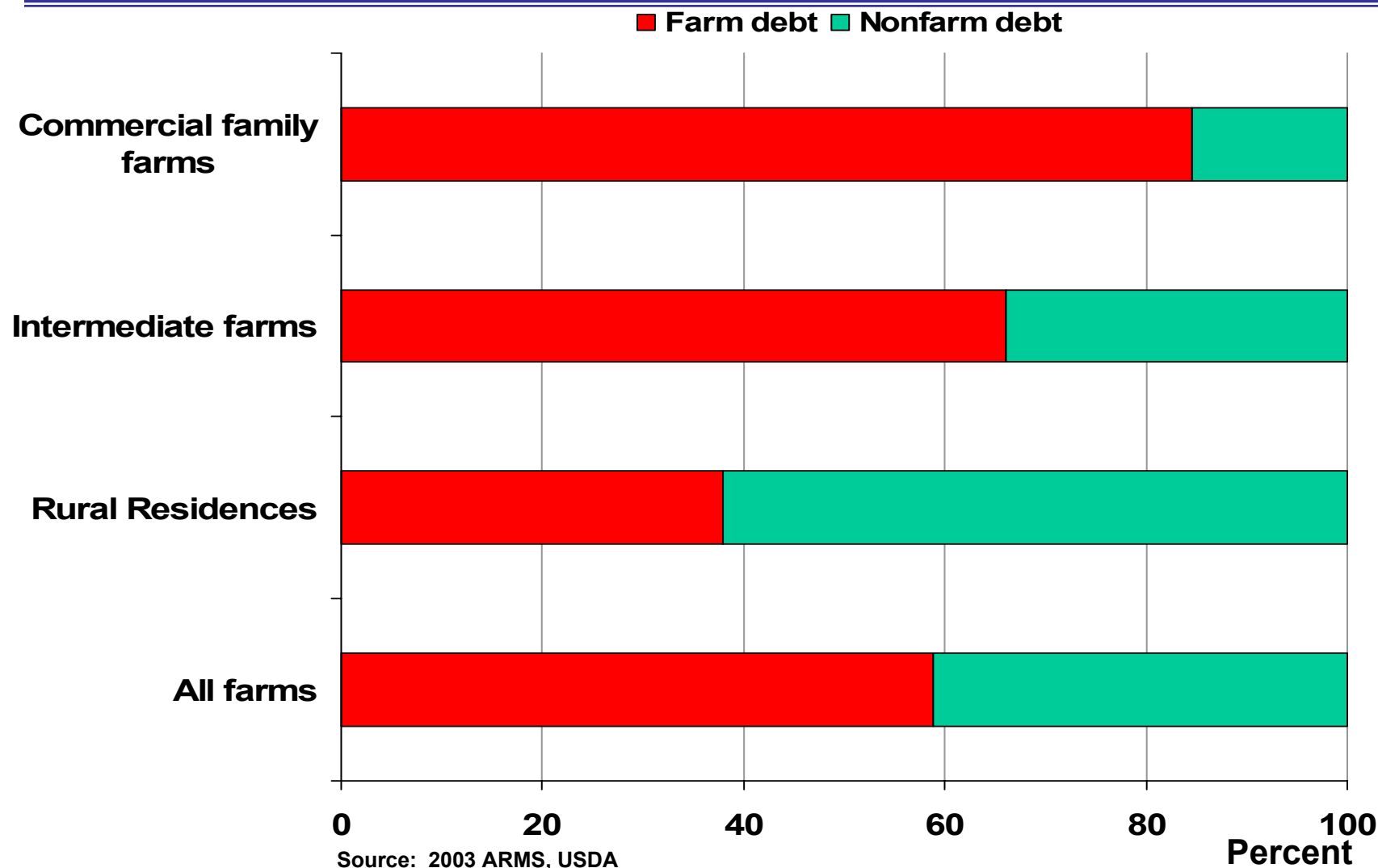
Rabobank purchase offer for FCSAmerica

- ▶ Rabobank:
 - Netherlands-based cooperative bank
 - Growing presence in US agribusiness and nonreal estate loans
- ▶ FCSAmerica:
 - Omaha-based FCS Agricultural Credit Association
 - Provider of about 3 percent of US farm business debt
 - Portfolio is mainly real estate loans
- ▶ Offer: July 30, 2004 Terminated: October 21, 2004
- ▶ Would have been first purchase of GSE by private entity
- ▶ Signals rising competition among farm lenders
 - Seeking to expand range of financial services to farm clients

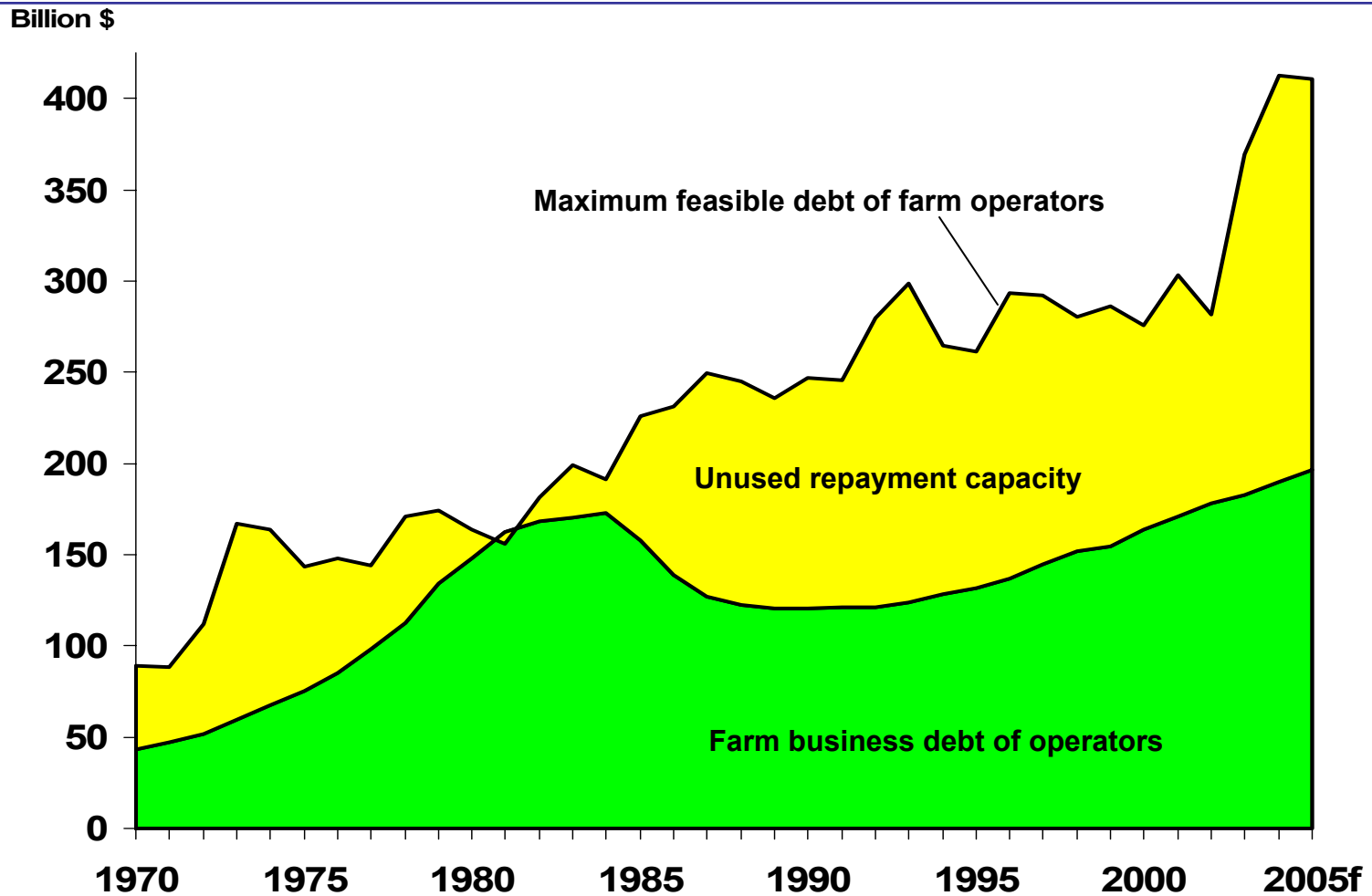
Share of farm households reporting farm and/or nonfarm debt, by farm typology, 2003



Composition of farm household debt, 2003



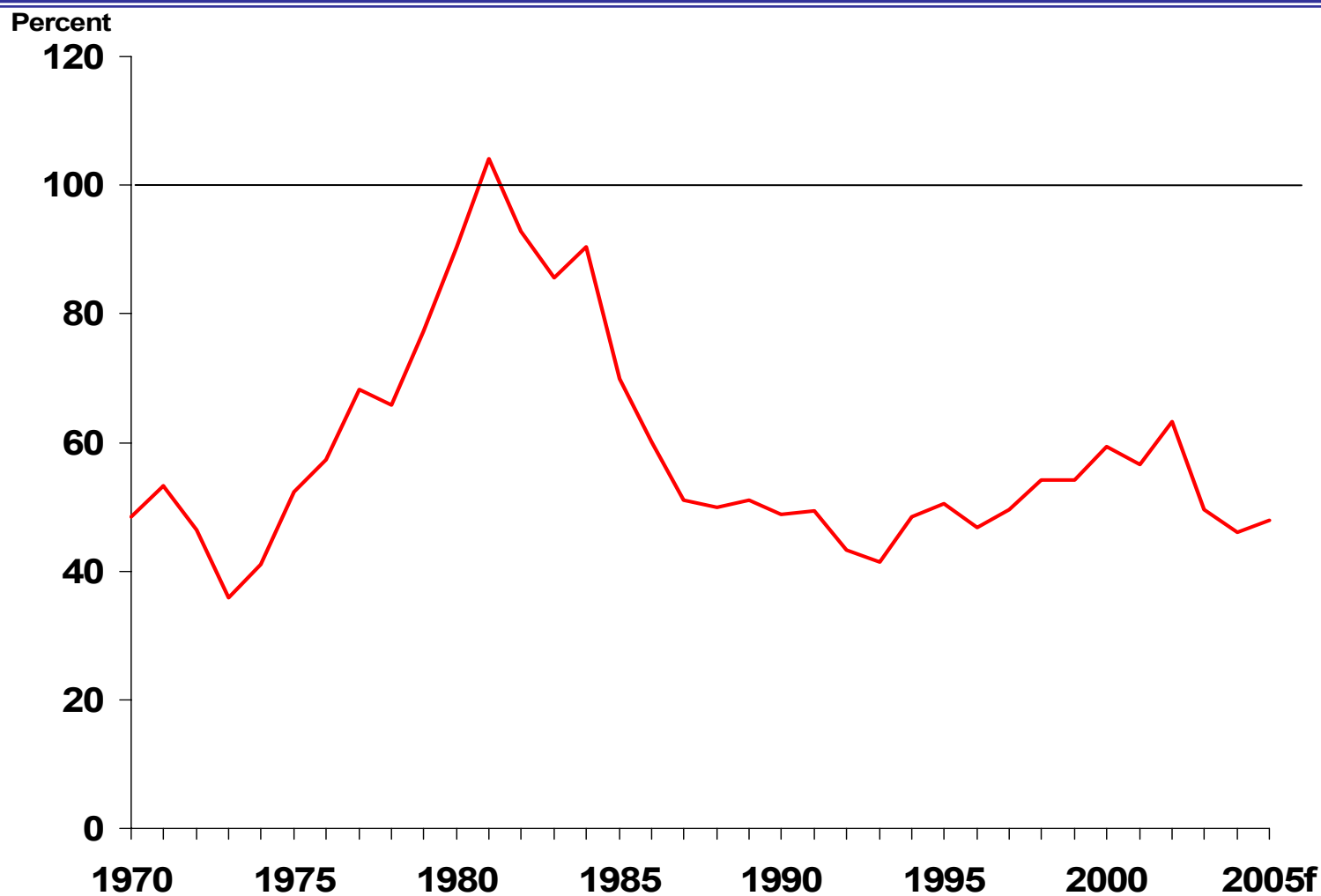
Farm operators debt repayment capacity and farm business debt, 1970-2005f



f = forecast

Source: Economic Research Service, USDA

Debt repayment capacity utilization, 1970-2005f



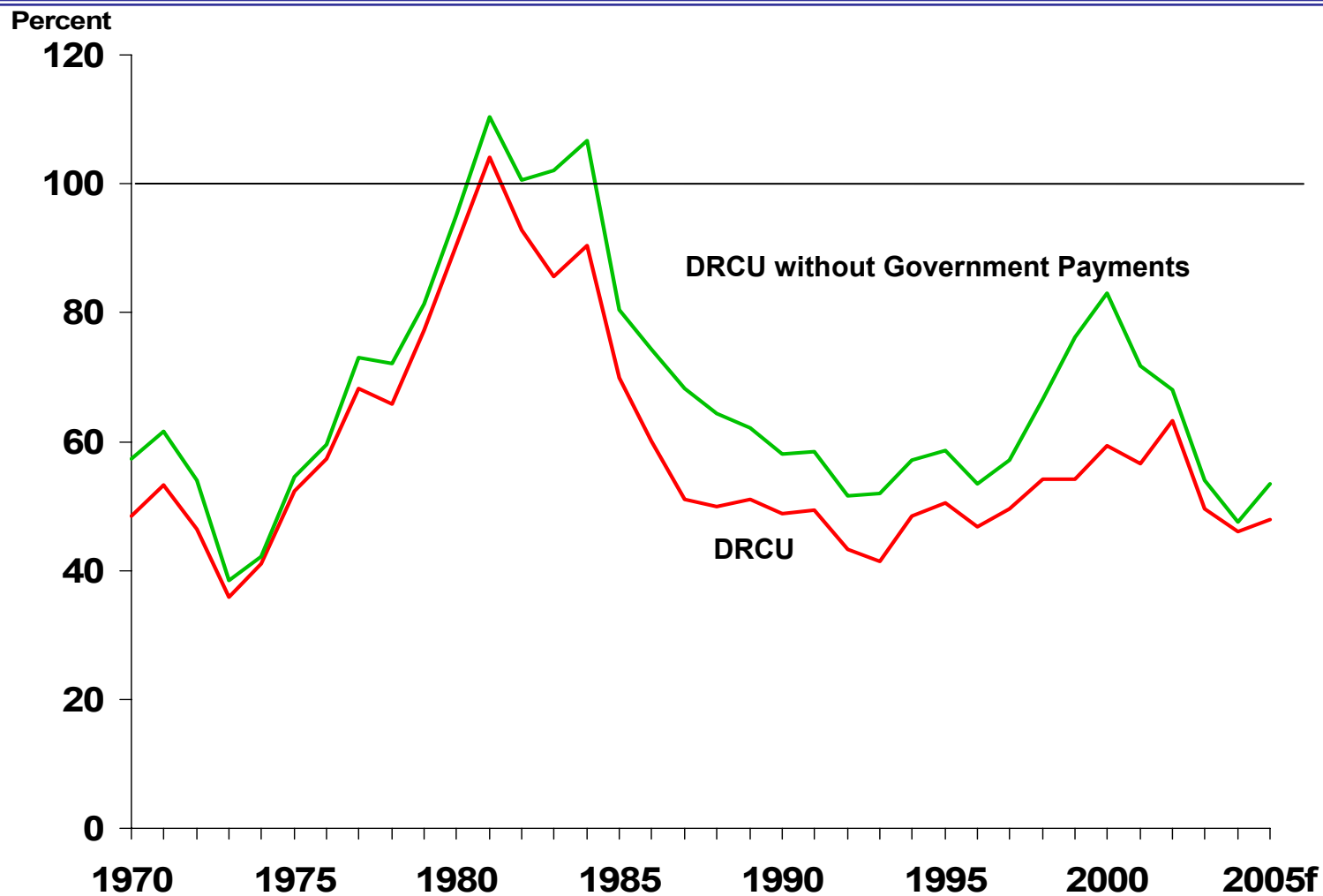
f = forecast

DRCU = For farm operators: Actual debt / Debt that could be repaid from current income

Source: Economic Research Service, USDA

USDA Outlook Forum 2005

Debt repayment capacity utilization, 1970-2005f



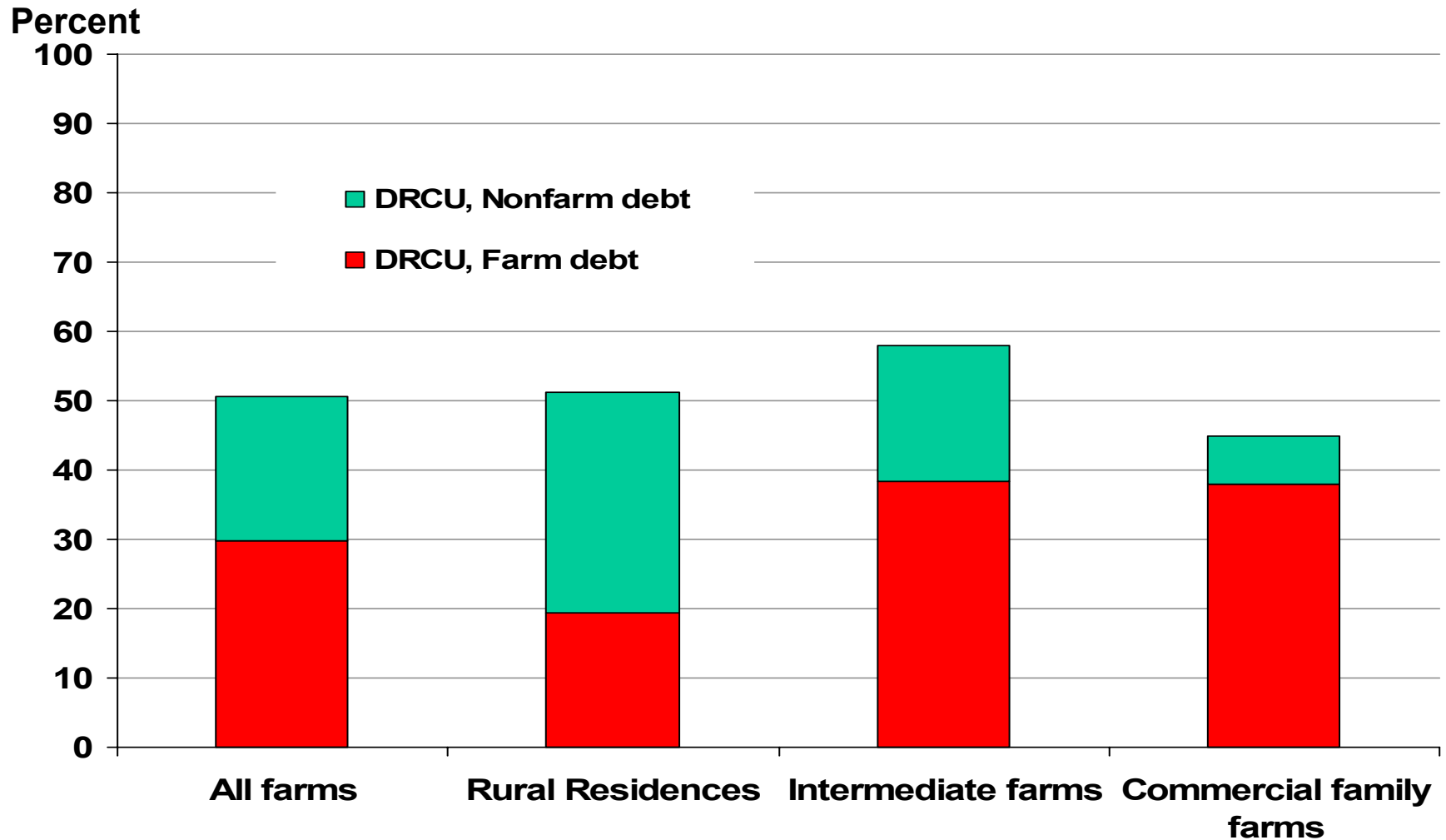
f = forecast

DRCU = For farm operators: Actual debt / Debt that could be repaid from current income

Source: Economic Research Service, USDA

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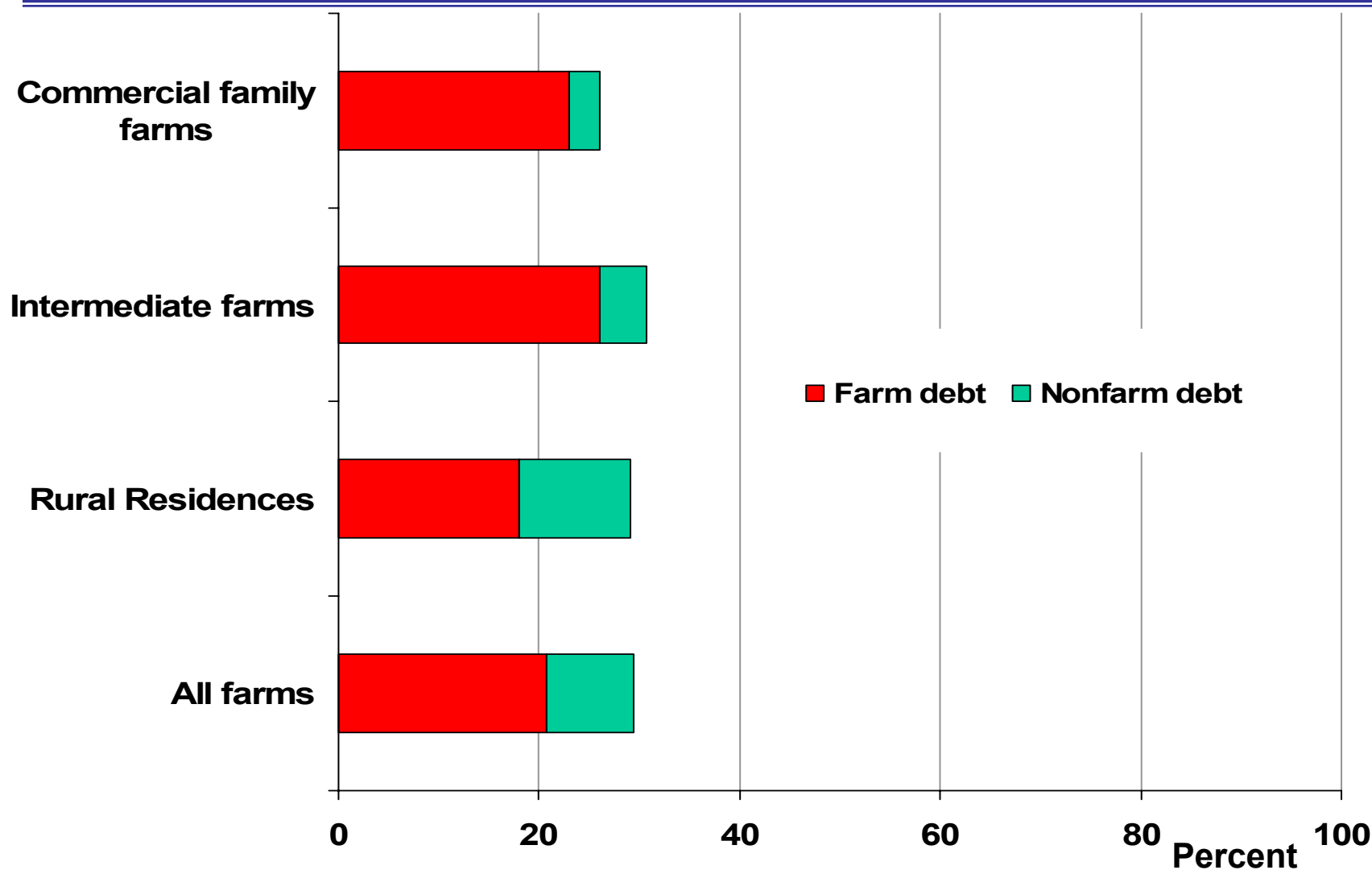
Farm and nonfarm debt components of DRCU of farm operator households, by farm typology, 2003



Source: 2003 ARMS, USDA

Share of farms with potential debt repayment problems, 2003

(based on DRCU > 1.2 estimated using net cash income)



Summary and Conclusions

- ▶ Farm business debt has risen to record levels
- ▶ Debt levels are not likely to be a problem relative to:
 - Value of farm business assets
 - Farmers' ability to service debt
- ▶ Strong demand for farmland for nonagricultural uses
- ▶ Credit availability is not a constraint
- ▶ Most farm households can service farm and nonfarm debt loads
- ▶ Nonfarm debt may become more burdensome

<http://www.ers.usda.gov/Briefing/FarmIncome/wealth.htm>
